

BEFORE THE  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF:                   : Docket Numbers  
STATE-FEDERAL REGIONAL RTO PANELS   : RT02-2-000  
                                      : ER01-2997-000  
                                      : RT01-37-000  
                                      : ER01-123-000  
                                      : ER01-2999-000  
                                      : RT01-84-000  
                                      : ER02-108-000  
                                      : RT01-87-000  
                                      : EL01-116-000  
                                      : RT01-26-000  
                                      : RT01-98-000  
                                      : RM99-2-000  
                                      : RT01-99-000  
                                      : RT01-100-000  
                                      : RT01-1-000  
                                      : ER01-2993-000

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STATE MIDWEST RTO WORKSHOP

1 Radisson Inn Bismarck  
2 800 South Third Street  
3 Bismarck, North Dakota

4

5 Monday, June 24, 2002

6 2:45 p.m.

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A P P E A R A N C E S

FEDERAL ENERGY REGULATORY COMMISSION:

COMMISSIONER PATRICK WOOD, III (Chairman)

COMMISSIONER NORA BROWNELL (Via Telephone)

COMMISSIONER LINDA BREATHITT (Via Telephone)

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STATE REGULATORY PARTICIPANTS:

COMMISSIONER SANDRA HOCHSTETTER (Arkansas)

COMMISSIONER RUTH KRETSCHMER (Illinois)

COMMISSIONER TERRY HARVILL (Via Telephone)

COMMISSIONER DAVID W. HADLEY (Indiana)

COMMISSIONER JOHN WINE, (Kansas)

COMMISSIONER GARY GILLIS (Kentucky)

COMMISSIONER ROBERT NELSON (Michigan)

COMMISSIONER DAVID SVANDA (Michigan)

COMMISSIONER EDWARD GARVEY (Minnesota)

COMMISSIONER TONY CLARK (North Dakota)

COMMISSIONER SUSAN WEFALD (North Dakota)

COMMISSIONER JUDY A. JONES (Ohio)

1 COMMISSIONER JAMES BURG (South Dakota)

2 COMMISSIONER BOB SAHR (South Dakota)

3 COMMISSIONER ROBERT M. GARVIN (Wisconsin)

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7 OTHER FERC STAFF:

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9 ED MEYERS

10 MICHAEL MCLAUGHLIN

11 SARAH MCKINLEY

12 SHELTON CANNON (Via Telephone)

13 KEVIN KELLY (Via Telephone)

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1 (The following proceedings were had and  
2 made of record herein, commencing at 2:45 p.m.,  
3 Monday, the 24th day of June, 2002:)

4 MR. MEYERS: Good afternoon, everyone.  
5 We're going to try to get started here. I'm Ed  
6 Meyers with the FERC staff, and welcome to the FERC  
7 Mid America Regional Workshop. This will primarily  
8 today be a discussion between the state  
9 commissioners and the FERC commissioners, and, of  
10 course, we have Chairman Wood with us, albeit  
11 rather briefly. The Chairman has a plane to catch  
12 in maybe about 30 minutes, but we're just going to  
13 have to work with that, and we have Commissioner  
14 Brownell on the line.

15 I'd just like to point out that this is a  
16 transcribed meeting, and the transcription of this  
17 meeting will be posted on the FERC web site in ten  
18 days.

19 What I think we should probably do is just  
20 have the very briefest of roll call in recognition  
21 of the time constraint that we have, just going  
22 around the table for the state commissioners and  
23 then see who's on the phone.

24 COMMISSIONER WOOD: Pat Wood.

25 COMMISSIONER WEFALD: Commissioner Susan

1           Wefald, North Dakota.

2           COMMISSIONER NELSON: Bob Nelson,  
3           Michigan.

4           COMMISSIONER HADLEY: Dave Hadley,  
5           Indiana.

6           COMMISSIONER JONES: Judy Jones, Ohio.

7           COMMISSIONER SAHR: Bob Sahr, South  
8           Dakota.

9           COMMISSIONER BURG: Jim Burg, South  
10          Dakota.

11          COMMISSIONER HOCHSTETTER: Sandy  
12          Hochstetter, Arkansas.

13          COMMISSIONER WINE: John Wine, Kansas.

14          COMMISSIONER KRETSCHMER: Ruth Kretschmer,  
15          Illinois.

16          COMMISSIONER GARVIN: Bert Garvin,  
17          Wisconsin.

18          COMMISSIONER SVANDA: Dave Svanda,  
19          Michigan.

20          MR. MCCLAUGHLIN: Mike McLaughlin, tariffs  
21          and rates, FERC.

22          MR. MEYERS: And like we've been saying,  
23          we're going to save most of the time for the  
24          discussion of the five issues. We might have some  
25          opening comments, if the Chair would like to give

1       some, and then Commissioner Brownell followed by  
2       President Wefald.

3               COMMISSIONER WOOD: I'll keep it brief. I  
4       just want to appreciate the continued working  
5       relationship we have with you all as I spoke this  
6       morning, but what I hope to accomplish today in  
7       this agenda, that I will be up for the first part  
8       and Linda will take over when I step out, and Nora  
9       is here throughout, will be a couple of issues that  
10      we have circulated work I believe with you all to  
11      put the agenda together. So I look forward to  
12      plowing through as many of those items as we can  
13      today. And, Nora, if you want to pop in?

14             COMMISSIONER BROWNELL: You know, I'm  
15      interested in covering as much of the territory as  
16      we can while you're still there, so I will be quiet  
17      for once.

18             COMMISSIONER WEFALD: If you could ask  
19      that that microphone be increased in volume, that  
20      would help everyone to be able to hear. I'm  
21      Commissioner Susan Wefald from North Dakota, and I  
22      know I speak on behalf of all the commissioners who  
23      are present today at this meeting in saying how  
24      much we appreciate the spirit of these meetings.  
25      It's always very helpful to have an opportunity to

1 dialogue informally with another agency on a  
2 national level about issues that are important not  
3 only to the state but to our whole country, and so  
4 we really appreciate the spirit that has gone into  
5 these meetings.

6 The commissioners have spent some time  
7 working together on the agenda that's been  
8 prepared. We worked together with the FERC on  
9 preparing that agenda, and I would particularly  
10 like to thank Sandy Hochstetter of Arkansas who  
11 facilitated some of those discussions about the  
12 agenda that's before us today. Having said that, I  
13 would like to just move into the meeting, as well.

14 MR. MEYERS: And we're ready for the first  
15 item. We don't have any comments on them in  
16 particular, but we're available to discuss them  
17 with you. So we're -- we'd like to receive your  
18 comments, questions.

19 COMMISSIONER NELSON: Yeah, let me start.  
20 The first item dealing with scope and configuration  
21 of the Midwest ISO and our concerns about the way  
22 Alliance companies have made their choices. I  
23 think it's fair to say, although we're not  
24 unanimous about this, that the state commissions in  
25 the Midwest have very stark concerns about the



1 configuration as it now sits before us, and I  
2 believe it's fair to say also that we are concerned  
3 based on some of the information we heard this  
4 morning from the Midwest ISO and SBP, about the  
5 impact on redispatch, on reliability, on security  
6 and outage concerns of the configuration that we  
7 see.

8 And I believe it's important, I think, at  
9 this point, because I know that you have a meeting,  
10 Mr. Chairman, Wednesday with the Alliance  
11 companies, to get from them a very swift and  
12 definitive time frame for when they can move to a  
13 joint and common market, because if they can't  
14 commit to that, I believe it's important that FERC  
15 step in and redraw the lines, and I believe that  
16 the Federal Power Act gives you that authority.

17 I believe that Section 202(A) gives the  
18 authority for FERC to do that, and even though that  
19 section was drafted long before you talked about  
20 RTOs, I think the Supreme Court in 888 contemplates  
21 that and says that you can look at development  
22 sense, 1935, in making your determination as to  
23 interpreting that law.

24 And so at least from my standpoint I think  
25 it's important that unless there is some definitive

1 and swift time frames for meeting a joint and  
2 common market, that we allow you to do that.

3 COMMISSIONER WOOD: Anybody else on that  
4 issue about the Alliance companies?

5 COMMISSIONER KRETSCHMER: Actually, I have  
6 supported the Alliance --

7 COMMISSIONER BROWNELL: Do Ohio and  
8 Illinois specifically have anything to say? Are  
9 they there?

10 COMMISSIONER WOOD: Yeah. Ruth is here,  
11 Nora. We've got to get her miked up here.

12 COMMISSIONER HARVILL: I'm on the phone,  
13 as well. This is Terry Harvill.

14 MR. MEYERS: Go ahead.

15 COMMISSIONER KRETSCHMER: Okay. I just  
16 wanted to say that I believe that Illinois has on a  
17 divided vote, a 3 to 2 vote, more or less favored  
18 the MISO. Two of us have had a number of concerns  
19 about the MISO. We feel that -- I speak for  
20 myself. I will not speak for anyone else. I feel  
21 that our utilities have made a decision. I think  
22 the decision they made is reasoned. I think there  
23 are logical reasons for Illinois to be in the  
24 Alliance with PJM, and I really do think that from  
25 our perspective, at least from my perspective, that

1 more consideration needs to be given to working out  
2 the problems between the MISO and between the PJM.

3 PJM is certainly an experienced  
4 organization. Even the MISO says that they're  
5 using their guidelines to create a seamless market,  
6 and I think you need to look to see what the effect  
7 is for the pricing, and this is a pricing issue for  
8 me. It's also a matter of choice on the part of  
9 the utilities because I don't pretend to run  
10 utilities. I regulate them, I do not run them, and  
11 I think utilities should be given the opportunity  
12 to make their decision based on the information  
13 that they have.

14 I also feel that we need to give the same  
15 attention to shareholders that we give to  
16 customers. According to our legislation we must do  
17 that, that we are to always be aware of the impact  
18 on customers, we are also to be aware of the impact  
19 on the utilities to ensure that they earn a fair  
20 profit.

21 So from my perspective this is something  
22 we need to give more thought to, and certainly we  
23 need to be aware of the impact of the decision you  
24 make on the costs to the customers in the various  
25 states because there are costs involved in deciding

1       this.

2             You also need to be aware of the fact that

3       we're going to need a lot of new transmission.

4       You've said that time and again, and there has to

5       be a reason to build transmission, and if the

6       prices aren't proper, there will not be a reason to

7       build that transmission.

8             So I think you've got a tough job. I know

9       that you're in a hurry. I would suggest, though,

10      that haste sometimes makes waste. We are still

11      working on completely deregulating the natural gas

12      industry, and we started -- in Illinois we gave the

13      first certificate for what we called carriage,

14      1984. We had the first certificates for companies

15      to wheel -- or not to wheel -- to have carriage of

16      gas.

17             1984, Pat. This is 2002 and we still

18      don't have complete residential choice. In

19      Illinois we do, but we're one of the few states

20      that has that. We started on deregulating of the

21      telecommunication industry on 1-1-84. I can

22      remember waking up that day because I was on the

23      commission and running for the telephone. I wanted

24      to make sure there was a dial tone -- a dial coming

25      up on the phone, and that was 1984. We forget how

1 long it takes.

2 We still have problems getting 271 for  
3 telecommunication companies across the country.  
4 We're still working on that. It has been a long,  
5 drawn-out process, and we won't have this done for  
6 the whole country for, I would say, years from now.

7 So I don't see the rush to judgment on the  
8 electric side. It should take time. We want to do  
9 it properly, we don't want to have problems like  
10 they've had in California, we don't want to make  
11 mistakes. We can't afford mistakes on the electric  
12 side. Energy for our industry and electricity for  
13 homes is too important to make a bad decision.

14 So my suggestion is that you take your  
15 time, you look at all the issues, you consider them  
16 carefully and don't rush to judgment.

17 MR. MEYERS: Thank you. Terry.

18 COMMISSIONER HARVILL: Can you hear me  
19 okay?

20 MR. MEYERS: Yes.

21 COMMISSIONER HARVILL: As you might  
22 expect, Commissioner Kretschmer and I may have a  
23 different opinion on this matter. I think my  
24 concerns really boil down to two, the first being  
25 the fact that obviously Commonwealth Edison,

1 Illinois Power have made a decision to go towards  
2 PJM.

3 The time lines that have been outlined to  
4 us for that process to reach completion, we're  
5 talking about a time to negotiate through the  
6 memorandum of understanding, that I believe either  
7 has or has not been signed as of yet, and then  
8 obviously time to put that before the FERC, and  
9 assuming the FERC makes an affirmative decision on  
10 that plan, a number of months measured in years to  
11 actually implement that.

12 We've heard time and time again from  
13 Illinois Power and Commonwealth Edison that this  
14 decision to join PJM is largely driven by AEP's  
15 decision to join PJM, and I would not hesitate to  
16 tell you that, you know, one of our large concerns  
17 is that if AEP -- something happens in the process  
18 of their joining PJM obviously could derail the  
19 process of ComEd and Illinois Power joining PJM and  
20 put us back where we are today, where we've been  
21 largely for the past several years.

22 So I think the issue of timing is  
23 important because, you know, we could be sitting at  
24 the end of 2003 and be no further along than we are  
25 here today.

1           As far as obviously some utilities joining  
2           the MISO and other utilities joining PJM from the  
3           Illinois perspective, obviously we've raised  
4           concerns about that. These seams issues have yet  
5           to be worked out between the two. I think that's  
6           largely an issue that can be worked through once a  
7           decision is made as to where our utilities are  
8           going to be, and the same goes for the rate issue.  
9           I think that's something that can be decided almost  
10          after the fact once an affirmative decision has  
11          been made where these utilities are going to be.

12          But that being said, obviously a concern  
13          exists as to where the lines are drawn, and in our  
14          comments that we filed I believe just last week  
15          with the FERC on these issues, one of our concerns  
16          was the fact that the generating aspect of our  
17          utility companies may be driving this decision more  
18          so than the interest of the local utility, the  
19          wires utility, or their customers.

20          Again, we've heard ComEd and Illinois  
21          Power say their markets are to the east, and if  
22          they're going to sell power, they need to be part  
23          of whatever market is established to the east of  
24          Illinois. The question, I guess, is whether or not  
25          the generation aspect of the company is driving

1           that decision or something else.

2           So, you know, I don't envy you and I don't  
3           know what the right answer is, but whatever you  
4           decide I think, you know, timing is of the utmost  
5           importance.

6           I would echo what Commissioner Nelson  
7           said, that, you know, going back to the FERC  
8           regional conferences that were held under Chairman  
9           Hoecker, I believe the Commission -- Illinois  
10          Commerce Commission stated that we felt that you  
11          had the authority under the Federal Power Act to  
12          take some action. I would encourage you to do so  
13          here and make the decision and put it in place and  
14          let's go forward as far as implementing, but the  
15          uncertainty is really what's killing us right now.

16          MR. MEYERS: Okay. Thank you. That was  
17          Commissioner Harvill of Illinois, and kindly  
18          identifies yourselves. Commissioner Svanda,  
19          please.

20          COMMISSIONER SVANDA: Thank you, Ed. I  
21          guess -- well, there have been very few comments  
22          already but some excellent comments from each of  
23          the people that have spoken. I guess I'd like to  
24          take off on something that Terry mentioned and in  
25          reference over to my immediate colleague from



1 Michigan, Bob Nelson, and that's the decisions that  
2 have been made.

3 I guess those of us that have been  
4 tracking some of these formations over the past  
5 couple of years have been concerned about how  
6 decisions get made, what motivates the decisions  
7 that get made in terms of the declarations, and I  
8 think we all know that there are sometimes very  
9 good and right reasons for making a decision, for  
10 example, to join one organization as opposed to  
11 another, and there are also frequently not so right  
12 reasons for making those decisions, and I guess  
13 with regard to the decisions that have been made  
14 and the jumping back and forth between MISO and  
15 Alliance and then MISO and PJM and MISO and other  
16 possibilities that are out there, it really gets to  
17 what are we trying to accomplish with the changing  
18 complexion of those decisions.

19 And so I guess my encouragement to you  
20 would be to keep your eye on the ball, FERC, make  
21 sure that you stay focused on what the goals are  
22 that you yourselves have been espousing in terms of  
23 what you're trying to accomplish in the Midwest  
24 region, what you're trying to accomplish in fact on  
25 a broader scale than just in the Midwest, but make

1       sure that you stay focused on developing those  
2       broad markets and the markets that truly represent  
3       open access and free participation for those who  
4       wish to participate in those markets.

5             And I think to that extent you need to  
6       work hard to erase the differences in terms of  
7       membership. If someone has opted to join MISO or  
8       if someone has made a determination to join PJM or  
9       a determination to join someone else that's  
10      relevant, that shouldn't matter. The world that  
11      those individual companies operate in should look  
12      exactly the same in terms of providing service to  
13      the marketplace, in terms of providing free and  
14      open access to a competitive arena that all can  
15      participate in.

16            So my encouragement would be move on your  
17      with your vision, do it quickly. I think we have  
18      been spending way too much time. You've heard me  
19      say this over and over again. We've been in  
20      discussions clear back when, Pat, you were at the  
21      Texas Commission and Nora was at the Pennsylvania  
22      Commission, and we have discussed these issues way  
23      past their prime, and it's time to just make some  
24      of the hard decisions about how the lines work and  
25      to pound together the PJM, MISO territory so that

1       it all functions as one transparent type of  
2       operation regardless of which dotted line for  
3       membership the individual transmission companies  
4       signed up for.

5               MR. MEYERS: Commissioner Garvin.

6               COMMISSIONER GARVIN: Well, Mr. Chairman,  
7       I can't emphasize enough on behalf of Wisconsin  
8       that we need -- scope and configuration are  
9       critical issues for states like us because we're  
10      behind in constraint, and my other colleagues -- I  
11      can speak for both of them since we filed comments  
12      last week on this decision by Illinois Power and  
13      Commonwealth Edison to join PJM. We think it's bad  
14      public policy, we think it's bad for markets, and  
15      we think it's bad for reliability.

16              And because I want to give some of my  
17      other colleagues some time, I'm sort of mirroring  
18      what my colleagues from Michigan, what Terry  
19      Harvill said from Illinois. We think the time has  
20      come for the FERC to use a stick because we want --  
21      we benefit from a robust, large marketplace that we  
22      think can be accomplished through a single RTO in  
23      the Midwest.

24              Now I know there's some dissension in  
25      Illinois, but the regulators that are directly

1 affected -- the majority in the case of Illinois,  
2 there's unanimity in our state and Michigan -- we  
3 want this to happen, and it's going to be -- you  
4 have a tough decision to make obviously, but this  
5 will continue to be a moving target, and I think  
6 experience has shown that.

7 It will just go from difficult to -- you  
8 know, first there was Alliance, then there will be  
9 a drawn-out seams agreement, which we think will be  
10 unproductive, and we just -- we would -- from our  
11 state's perspective we would appreciate it if you  
12 would use your stick and force them into the MISO.

13 COMMISSIONER WEFALD: Judy.

14 MR. MEYERS: Commissioner Jones.

15 COMMISSIONER JONES: Judy Jones from Ohio.

16 In commenting on the decisions that the companies  
17 have made, our position in Ohio is that we don't  
18 make those decisions, we don't make those  
19 management decisions for companies, and so we  
20 neither approve nor disapprove those decisions.

21 However, we realize that these decisions  
22 have a terrific impact on Ohio, and we are  
23 concerned about having a seamless market in Ohio  
24 and in the region, and that has been our concern  
25 right from the very beginning.

1           So how -- how this -- the coordination  
2 works out between PJM, MISO and with the various  
3 companies is really the -- really the key issue,  
4 and also regarding timing I would say I would have  
5 to agree with Commissioner Svanda. While I don't  
6 think we've been really rushing, it's just a really  
7 tough decision that you have to make, and I think  
8 that we need the regulatory certainty to move on,  
9 and I guess I would hope that you could come to a  
10 decision relatively soon. Thank you.

11           MR. MEYERS: Any comments at this point?

12           COMMISSIONER WOOD: Anyone else? On the  
13 phone anybody?

14           MR. HEDERMAN: Bill Hederman from FERC.

15           COMMISSIONER BROWNELL: Hi, Bill.

16           MR. HEDERMAN: Hello.

17           COMMISSIONER WOOD: I'm -- we're talking  
18 as -- I think --

19           COMMISSIONER WEFALD: David has a comment.

20           COMMISSIONER WOOD: Oh, I'm sorry. David.

21           COMMISSIONER HADLEY: Go ahead.

22           COMMISSIONER WOOD: No, go ahead.

23           COMMISSIONER HADLEY: Well, it seems like  
24 we've been here before, I guess. Yogi Berra said,  
25 "Deja vu all over again." The comments that a

1 number of the Midwest state commissions offered in  
2 a previous discussion similar to this, our first  
3 state FERC panel, revolved around a single RTO in  
4 the Midwest, revolved around seamlessness for the  
5 market, and the comments seemed to be fairly  
6 similar to what we're hearing today. Then we  
7 talked about a doughnut, now we're talking about  
8 Swiss cheese.

9 The issues seem to continually rise, get  
10 settled and resolved, and then they rise again. So  
11 I would just echo my colleagues' points that we've  
12 been here, we've held this type of discussion.  
13 FERC's vision, one similar that the Midwest  
14 commissioners talked about with the geographic  
15 configuration that made sense and reliability  
16 principles that make sense and natural energy  
17 markets that make sense, held true in our previous  
18 discussions and still hold true today.

19 MR. MEYERS: Jim.

20 COMMISSIONER BURG: Jim Burg from South  
21 Dakota. Mine's probably going to be just a little  
22 bit different. We don't have the same problems  
23 that we hear you talking about, the rest, but I am  
24 concerned if the companies that we have that have  
25 not yet joined any because of a pricing issue are

1 forced to join and accept a pricing standard that  
2 we don't know if we can live with, if they were  
3 forced to come into the MISO under those  
4 conditions, because we -- it is an extreme issue  
5 for us as to what transmission pricing is going to  
6 be, and until that's settled, these companies don't  
7 feel comfortable coming in, and I'd be reluctant to  
8 support them being forced in at a time when they  
9 know that their -- that the pricing would be very  
10 detrimental to their customers.

11 COMMISSIONER KRETSCHMER: If I could have  
12 the final word.

13 COMMISSIONER WOOD: You always get the  
14 final word.

15 COMMISSIONER KRETSCHMER: Well, first of  
16 all, we have not given complete support to the  
17 MISO. We did raise some issues with them in our  
18 comments last week, but I would remind you again,  
19 Pat, that you're not going to get a second bite at  
20 this apple.

21 I would also remind you that the Alliance  
22 companies did have conditional approval at the time  
23 you came into office, and we were all relying on  
24 that, and that has changed. So we haven't been at  
25 this for quite as long as everyone seems to think.

1           You've made some dramatic changes. I'm  
2 not going to say whether they're right or wrong,  
3 but you've made some dramatic changes. When this  
4 goes into effect, if there is a mistake made, no  
5 matter what the mistake is, there's going to be  
6 enough blame to go around to everyone.

7           We can all ask that you would act quickly  
8 because none of us are going to take that  
9 responsibility. I'm urging that you act cautiously  
10 as you consider all your options, that you make  
11 sure that you have addressed all the problems.

12          Jim Burg addressed one of them. We have  
13 a -- I have a pricing problem in Illinois. It's  
14 one of the major problems that we have. I'm not  
15 sure that my problem is the same as Jim's is, but  
16 it's a pricing problem, and as far as saying, well,  
17 let's just do it, we can worry about pricing later,  
18 no, no, no. You can't do things later.

19          You've got to have a plan for the whole  
20 thing. You can't say we're going to do this now  
21 and later on worry about that. That isn't the way  
22 you're going to have to do it. That's the way  
23 California acted. They acted for today, not  
24 thinking about tomorrow. They didn't build  
25 transmission because they didn't need it then.



1       When they did need it, it was too late. They  
2       couldn't build it.

3               So it isn't a matter of acting quickly.

4       It's a matter of acting prudently. Some of the  
5       other questions you raise I think are questions  
6       that need to be answered, and I think they're very  
7       important questions, but once again, I may be the  
8       only word of caution here. I don't want to come  
9       back and say I was right. I want to come back and  
10      say you acted properly, and that means taking your  
11      time to do it properly.

12             COMMISSIONER WOOD: All right. We've got  
13      four other issues. The second one relates to the  
14      integration southward within the market footprint  
15      between MISO and Southwest Power Pool and also PJM,  
16      the integrated market vision that we heard a little  
17      bit about this morning at the end of Jim  
18      Torgerson's call, but we just wanted to test your  
19      thoughts on how that may be going, what issues we  
20      collectively or we at FERC or you all at the states  
21      need to do to see that that moves forward if that's  
22      something we like, and so I'll leave that open on  
23      those issues. Anybody want to jump in? Bob.

24             COMMISSIONER NELSON: Yes. Bob Nelson  
25      again. I think from my standpoint progress is

1 being made in that front in terms of the  
2 negotiations between PJM and MISO, and I think as  
3 opposed to the ERCOT, which was mentioned earlier,  
4 where you had governance of the TOs, by the TOs and  
5 for the TOs, you now have independent entities,  
6 SBP, PJM and MISO negotiating.

7 There are some problems, though, some  
8 issues that need to be addressed, and I think one  
9 is the opportunity for generators to gain the  
10 system because of the new configuration, and I  
11 think that has to be addressed in these discussions  
12 creating the unified market, but, again, I would  
13 urge that we move toward that unified market  
14 swiftly, and the longer we delay the more games  
15 that can be played.

16 COMMISSIONER WEFALD: Commissioner Susan  
17 Wefald, North Dakota. As I was looking over kind  
18 of the status of the Southwest Power Pool and  
19 seeing that companies in that area are trying to  
20 decide at this point whether they're going to join  
21 MISO or whatever it's called in the future or make  
22 another decision to join another RTO, I was  
23 reminded of the same discussions that happened, you  
24 know, about six months, a year ago, about the  
25 companies in the Midwest ISO.

1           And so it just seems like each region of  
2           the country that you proceed with this in, it's not  
3           going to get easier, is what I'm noticing, and I  
4           suppose that's no different than people. Companies  
5           are looking very cautiously at their options and  
6           what's going to work best for them, and I know,  
7           though, that you're going to be looking at the  
8           public interest to make sure that the decisions  
9           that they make are the correct ones for everyone  
10          and not just based on dollars and cents for that  
11          company.

12          But I can't imagine that it's going to be  
13          different in the future unless there's some  
14          decisions made like -- you know, it's not a  
15          voluntary choice, you know, that there's some  
16          decisions from the FERC that there's mandated  
17          choice, and I don't know that everyone around this  
18          table is in favor of a mandated choice. I think  
19          we'd all like to see voluntary organizations put  
20          together and see if they can fall in place to the  
21          best possible means if that's at all possible, but  
22          if that doesn't work, then we expect some action by  
23          the FERC to make sure that these markets work.

24               MR. MEYERS: David.

25               COMMISSIONER HADLEY: Dave Hadley from

1 Indiana. The SBP, PJM and MISO effort for a single  
2 market is one that I've particularly been pleased  
3 at the spirit that's enveloped the whole  
4 discussions. A broad group of stakeholder  
5 participants from all different walks of life sit  
6 out with red and green cards and kind of give a  
7 clue, are we doing the right thing or the wrong  
8 thing, they'll ask, and you get a green if things  
9 are going well and a red where they're not, and  
10 when those meetings take place, there's been an  
11 awful lot of green cards, and where the occasional  
12 red cards show up, the team at a high level will  
13 take those back, work on them and bring them back  
14 and report at the next group meeting.

15 I think it's been a positive effort by the  
16 three entities to try to work through and develop  
17 those single markets for the Midwest. It's  
18 something I encourage to continue. The operational  
19 details do matter as we've seen with past  
20 discussions, and I'm pleased with the progress  
21 they're making. There are charts that have laid  
22 out time lines and implementation dates. It will  
23 take time to make those happen, but it's the spirit  
24 and the cooperation of rolling up their sleeves and  
25 trying to tackle those hard issues that I applaud.

1           COMMISSIONER WOOD: I need to depart. I  
2           want to thank you all for that. As Nora is  
3           listening in and Linda, just say who's talking  
4           because I have the benefit of seeing you all  
5           face-to-face, but just bark in who's talking for  
6           them, and I'll get the notes from them when we get  
7           back home. Thank you for the continuing  
8           congeniality. It means a lot to me personally on  
9           the job, but it means a lot to us as a Commission  
10          to try to do our stuff better, and, no, we won't  
11          always agree on everything, but it's certainly  
12          helpful to know where people are and why they are  
13          before we have to do what we've got to do to do our  
14          job. So thanks, and I will turn it back to Susan.

15          COMMISSIONER WEFALD: Okay. Great.  
16          Commissioner Wefald from North Dakota. One of the  
17          things that's so interesting is that the PJM model  
18          has been kind of adopted as a -- what I understand  
19          is that they're going to be making adaptations to  
20          the PJM model for the MISO, and so that's a  
21          challenge for all of us who aren't familiar with  
22          the PJM way of doing things as a model and becoming  
23          familiar with that so that then we can understand  
24          it better and know the -- what the ramifications  
25          are of even starting out with that as a model.

1           So I would just welcome -- it's going to  
2       take a lot of homework from everybody in this room  
3       to be working off of a model that we're not  
4       completely familiar with. Probably in the east --  
5       maybe Judy is very familiar with PJM's model  
6       because, of course, they are -- Judy Jones I'm  
7       referring to from Ohio -- because she's had  
8       companies who have been working within PJM, but in  
9       North Dakota, of course, it's a completely  
10      different model.

11           COMMISSIONER BROWNELL: Susan, it's Nora.  
12      Let me just make a comment on that because you  
13      bring up an important point. As we get into  
14      standard market design, which will be to some  
15      extent based on PJM, but I think we've evolved  
16      since then and you've seen some differences in the  
17      white paper and we're -- we're really trying to get  
18      behind what we now know. You know, they were first  
19      to some extent viewed as a model, but I think we're  
20      not just adopting it part and parcel.

21           But in any event, we talked to Bill Nugent  
22      about providing teams of folks at the summer  
23      meeting to talk about standard market design and  
24      what it is and what it is not. Unfortunately, it  
25      coincides with the July meeting and both of those

1 are filled, the agendas are just jampacked, but we  
2 are talking, and Ed may talk more with you out  
3 there about what's the best forum so that -- so  
4 that we can all be discussing the implementation  
5 issues.

6 It's one thing to issue this rulemaking.  
7 It is going to be yet another to implement it, and  
8 that's going to depend on kind of all of us  
9 learning at the same speed, and, trust me, we're in  
10 a learning curve here, as well.

11 So you raise an important point, and we  
12 will be working with you, but we'd like to be  
13 guided by kind of time and place, whether it's  
14 in-person, whether it's having staff people out in  
15 the regions, whether it's doing something on-line,  
16 which conceivably we could do with some guidance by  
17 the smart staff folks, I don't know, but it needs  
18 to be sooner rather than later, and, you know, I'm  
19 sorry we're missing the summer opportunity, but  
20 we've got to find the next best opportunity or a  
21 series of them.

22 MR. MEYERS: Any other comments on item  
23 two? Commissioner Kretschmer.

24 COMMISSIONER KRETSCHMER: This is Ruth  
25 Kretschmer. I attended a meeting between the MISO

1 and the Southwest Power Pool when they were talking  
2 about their merger, and I was very impressed with  
3 how everyone seemed to be cooperating in that.

4 I also understand that the same thing has  
5 taken place -- we did have representatives from PJM  
6 come to Illinois and speak about how it was going,  
7 and it seemed to me once again as far as seams and  
8 other issues were concerned, the two organizations  
9 are working well together.

10 I think that once the decision is made,  
11 that will fall in place and they will cooperate.  
12 So from my perspective that is not the biggest  
13 issue. Everyone will want this to work, so once  
14 the decision is made on what the framework is --  
15 and they are using the PJM model to this point and  
16 changes will be made, but PJM is the only one  
17 that's been up and running for a number of years,  
18 so I understood why they did that. Rather than  
19 create their own model, why not use one that's been  
20 tried and proven to work? I think that will work  
21 out. I'm not terribly concerned.

22 MR. KELLY: Ed, this is Kevin. Let the  
23 record reflect that Commissioner Breathitt just  
24 joined us.

25 COMMISSIONER BREATHITT: Good afternoon.



1           MR. MEYERS: Welcome. Good afternoon.  
2           We're on item two of the agenda. Any further  
3           comments here? Chairman Hochstetter, Arkansas.

4           COMMISSIONER HOCHSTETTER: This comment  
5           is -- this comment is in response to what  
6           Commissioner Kretschmer just said. I would feel  
7           remiss in not putting a caveat on that or making a  
8           comment relative to her comment on the SBP/MISO  
9           merger agreement and how it's moving forward.

10          I think that there are some open questions  
11          that still need to be resolved relative to where  
12          some of the companies that used to be in SBP may be  
13          on a moving-forward basis. I don't think all state  
14          regulators are, you know, in unanimity with respect  
15          to what RTOs, some of those former member  
16          companies, ought to be in the future.

17          Some of us are in the process of doing  
18          regional and state-by-state cost benefit analyses  
19          to determine based on FERC's proposed transmission  
20          pricing policies and standard market design  
21          principles, as well as, you know, other issues  
22          relative to configuration, power flows, et cetera,  
23          where companies fit the best to, you know, make  
24          ratepayer impacts minimal and make wholesale  
25          markets work the best.

1           So I just felt like throwing out that  
2       caveat that, you know, in our minds there is still  
3       some open, unanswered questions on where certain  
4       companies need to fall out.

5           MR. MEYERS: Can you have a unified  
6       market -- this is Ed Meyers -- between SBP and MISO  
7       and PJM without a formal merger, per se? This is  
8       for anybody.

9           COMMISSIONER KRETSCHMER: I think almost  
10      anything can work if the parties want to make it  
11      work.

12          COMMISSIONER SVANDA: No.

13          MR. MEYERS: Now there's a succinct  
14      answer. That was Commissioner Svanda for the  
15      record.

16          COMMISSIONER SVANDA: This is Dave Svanda,  
17      and I guess consistent with my earlier comments, I  
18      do agree with Ruth. If the parties really wanted  
19      to make it work, anything is possible.

20          I think what we have seen historically is  
21      that maybe there is a little reticence to making  
22      everything work for the best purposes, and so I  
23      would encourage, once again, that those who can  
24      make things happen make those things happen so that  
25      we end up with the seamless marketplace that

1 Commissioner Jones mentioned, so that we end up  
2 with an open access type of market that we can all  
3 be proud of.

4 MR. MEYERS: Any more comments on number  
5 two? Shall we move on to number three?

6 COMMISSIONER BROWNELL: I have a question  
7 going back a little bit, and this is as much for  
8 Linda's benefit as my own. Early in question  
9 number one, Terry, I think you referred to and, Bob  
10 Nelson, you referred to concerns that were  
11 apparently discussed this morning in terms of  
12 reliability, security, outage.

13 It's just, I guess, a fundamental  
14 engineering underpinning of some of the choices  
15 that have been made. We had a little bit of that  
16 discussion when we heard from Jim Torgerson and  
17 others last week, and I just wonder if you could  
18 say more about that, and certainly others chime in,  
19 but, Bob, you and Terry, I think, were the first to  
20 mention that.

21 COMMISSIONER NELSON: Sure. Terry, do you  
22 want to start or --

23 COMMISSIONER HARVILL: You can, Bob.

24 COMMISSIONER NELSON: Okay. Yeah. I  
25 think our concern, Nora, or at least my concern is

1       that there are those concerns with the present  
2       configuration as it's proposed, and I think it  
3       is -- what we've heard is it's very difficult to  
4       coordinate security and outage control when you  
5       have the situation where PJM and MISO exists today,  
6       and it's difficult to redispatch through -- through  
7       MISO when you have generators wanting to sell into  
8       MISO from PJM, and so all those are unanswered  
9       questions.

10             And I think those are the questions that  
11       have to be asked of the Alliance companies  
12       Wednesday, but I think it leads to the difficulty  
13       that Dave was alluding to, that this can work, but  
14       it's going to be very difficult and very ugly  
15       because of those problems.

16             COMMISSIONER HARVILL: Yeah. To kind of  
17       follow on the heels of that, Ruth mentioned that  
18       PJM came in last week and made a presentation to  
19       the Illinois Commerce Commission, and in that  
20       presentation there were several questions asked  
21       regarding the seam that would exist between our  
22       Illinois-based utilities and whether or not that  
23       seam in and of itself would obviously cause  
24       security concerns and/or increased prices, and  
25       pretty much the response we got back from PJM was,

1 well, we don't know, and as I said before, those  
2 are things that will, you know, potentially work  
3 themselves out if an affirmative decision is made  
4 that, you know, this market configuration is  
5 acceptable.

6 But I guess the overriding question I have  
7 and maybe some of my other commissioners have, you  
8 know, is this the appropriate market structure,  
9 and, you know, I keep going back to my original  
10 comment which was, you know, I would disagree with  
11 Ruth in that, you know, let's let the utilities  
12 tell us what they want to do. They've had several  
13 years to tell us what they want to do, and for the  
14 most part they've acted in their own best interests  
15 as opposed to the interests of the people they're  
16 trying to serve.

17 You know, they are utilities, we are  
18 regulators, you know, we regulate them for a  
19 reason, and, you know, this voluntary approach I  
20 think has shown itself not to be as successful as  
21 one would have hoped it would be.

22 COMMISSIONER BROWNELL: I think Wisconsin  
23 also expressed some concerns if I'm not correct.

24 COMMISSIONER GARVIN: Yes. This is Bert  
25 Garvin again. We are concerned about this. I

1 mean, we -- as Bob pointed out, the situation right  
2 now, there is a high degree of connectivity between  
3 ATC and ComEd, and I think from what we've heard  
4 from SBP and MISO is that they could do this, but  
5 the question for long-term reliability is why go  
6 through this exercise.

7 Common sense and regulatory experience  
8 would suggest that it's much better to have these  
9 systems within one RTO. So, I mean, to conclude  
10 that it can't be done I think is wrong, but from a  
11 -- I mean, I'm a lawyer, not an engineer. I would  
12 defer to the engineers on that. They could fix  
13 this problem, but the point is why go through this  
14 exercise.

15 MR. SCHMIDT: This is Bill Schmidt  
16 speaking on behalf of the Iowa Utilities Board, and  
17 just to reinforce that point, which was also  
18 contained in comments filed on behalf of Minnesota  
19 and Iowa together, as neighbors we feel that we  
20 will bear some burden of these choices to the  
21 extent that they -- that those choices will have  
22 negative impacts on people on the other side of a  
23 seam or a bus bar. We would urge you to look at  
24 those kinds of consequences in making your -- your  
25 response to these choices.

1 COMMISSIONER BROWNELL: Thank you.

2 MR. MEYERS: All right. Shall we move on  
3 in the agenda? We're up to number three, the role  
4 of state commissions in the planning and governance  
5 of RTOs. Who would like to speak to this?

6 COMMISSIONER WEFALD: I'll start.

7 MR. MEYERS: President Wefald.

8 COMMISSIONER WEFALD: Thank you. This is  
9 Commissioner Susan Wefald of the North Dakota  
10 Public Service Commission, and I'd like to just  
11 give you a short update on where the commissions in  
12 the MARC region are on this governance issue.

13 About a month ago, I would say, there was  
14 a survey passed out by the State of Oklahoma, and  
15 it was to take a look at what the positions were of  
16 different states as far as governance, and we  
17 looked at some different options that we could  
18 consider, and several states responded to that. I  
19 think it was about -- about nine states responded,  
20 North Dakota, Michigan, Arkansas, Iowa, Kentucky,  
21 Indiana, Ohio, West Virginia.

22 And so that gave us a starting point to  
23 take a look at some options, but all the states  
24 realized that that's not the end point of this  
25 discussion. It just mainly gave us some ideas to

1 think about, to consider. Quite frankly, many of  
2 them were rejected, and we all said we needed to  
3 come up with a new model.

4 And so there is a proposal now among the  
5 states to present a new model for governance, and  
6 that will be passed out to the state commissions in  
7 the next week or so. Commissioner Gillis from  
8 Kentucky is going to be facilitating that effort,  
9 and so we're hopeful now that we've narrowed down  
10 what we don't want and we have a better idea of  
11 what we do want as a basis of that last survey and  
12 that we'll be able to come to some conclusions  
13 about this, we hope, by the end of July.

14 In fact, we're hoping to have an  
15 opportunity to talk about this at the meeting in  
16 July, at our MARC meeting that we have at the  
17 Portland NARUC meeting, and to be able to share  
18 some thoughts about that at that time perhaps to  
19 come to more conclusions.

20 It's an evolving process, and I'll tell  
21 you what's so difficult about this, is that all of  
22 us have on our plate pressing issues on a  
23 day-to-day basis with our immediate concerns that  
24 need to be acted on at the next commission meeting  
25 that we have, and then we also have all of the



1 details that come to us about the MISO changes that  
2 are happening on a regular basis on the -- kind of  
3 the operations issues, I would talk about.

4 So we -- the policy issues like  
5 governance, we know they're very important and we  
6 are making a real effort to get to these issues and  
7 to come to resolution on them as a group. We're  
8 halfway there.

9 COMMISSIONER BROWNELL: Great. Thank you.  
10 I know this is hard work at a time when nobody  
11 needs more on their agenda, but we need to get to  
12 the end gate here.

13 COMMISSIONER WEFALD: That's why we're  
14 suggesting that by the end of July we're going to  
15 try to have some more definitive responses for you,  
16 so that -- just like we say to you we want to have  
17 a response. When you ask us for a response, we're  
18 hoping to be able to give you one in a timely  
19 manner.

20 COMMISSIONER KRETSCHMER: This is Ruth  
21 Kretschmer again. It's always interesting to look  
22 to the past before you try to plan for the future,  
23 and looking to the past --

24 COMMISSIONER WEFALD: Her mike isn't on.

25 UNIDENTIFIED SPEAKER (Via Telephone): Ed,

1 I'm missing something.

2 MR. MEYERS: We're trying to mike it up.

3 UNIDENTIFIED SPEAKER (Via telephone):

4 Thank you.

5 COMMISSIONER KRETSCHMER: Can you hear me  
6 now?

7 UNIDENTIFIED SPEAKER (Via Telephone):

8 Yes, ma'am.

9 COMMISSIONER KRETSCHMER: I was saying  
10 that when looking to the future, it's always good  
11 to look to the past because the past many times can  
12 give you an indication what the future will be.

13 As we look to the past of the -- of the  
14 transmission system, we know that utilities planned  
15 their transmission for their own service territory.  
16 That was what they had to serve and that's what  
17 they planned for. We also know that now that's not  
18 going to be all they have to plan for, but I would  
19 suggest to you that some states have been very  
20 reluctant to build transmission.

21 In Illinois we have never turned down a  
22 transmission proposal by a utility. We've looked  
23 at the lowest cost, we've looked at a lot of other  
24 issues, but we have sited transmission across some  
25 farms of state elected officials. They weren't

1 very happy, but we sited it.

2 When I -- the point I'm trying to make is  
3 some of my neighbors have not been as aggressive in  
4 siting as we have, and we heard this morning about  
5 everybody wants to send electricity to Chicago.

6 Well, it can't all stay in Chicago. We're an  
7 exporting state, which means what they're trying to  
8 do is to send electricity through Chicago, through  
9 Illinois into Wisconsin, into Michigan, into  
10 Indiana, although I know Indiana is an exporting  
11 state, also.

12 My point being that when it comes to going  
13 through Illinois, you're going to have to go  
14 through commissioners in Illinois, at least for the  
15 time being, unless some changes are made, and I see  
16 no particular reason to be the good neighbor and  
17 have ratepayers in Illinois, customers in Illinois  
18 be harmed by supplying transmission that is going  
19 to be used only for other states.

20 Now I want to be a good neighbor to  
21 everybody, but there has to be a recognition that  
22 when you site, that the local customers -- the  
23 local customers of utilities are not going to be  
24 responsible for paying the cost of transmission  
25 that's going to benefit other states. It has to be

1 proper pricing, and I hear nobody talking about  
2 pricing. We're all saying that can happen later.  
3 Sandy said the same thing in a different way.

4 So I think it's extremely important to  
5 understand that, yes, the FERC can order anything  
6 they want, but they can't order siting unless they  
7 get some legislation through Congress. I don't see  
8 that happening for the next couple years. So in  
9 the meantime, the pricing had better be right or  
10 the siting isn't going to be done. You need to  
11 understand that.

12 MR. MEYERS: Thank you.

13 COMMISSIONER KRETSCHMER: I'm not quite  
14 finished.

15 MR. MEYERS: Oh, sorry.

16 COMMISSIONER KRETSCHMER: There is a  
17 reason for this. Historically, transmission has  
18 been undervalued. Historically, in my judgment,  
19 the FERC has not priced transmission properly, has  
20 not rewarded companies that were willing to do some  
21 of the things that other companies were unwilling  
22 to do.

23 So don't look at this as just an add-on,  
24 that we can do this later. No, no, no. This has  
25 to be done now or the system is not going to work,

1 and, frankly, the FERC will be to blame if they act  
2 in haste without having taken care of the  
3 transmission pricing.

4 COMMISSIONER NELSON: Are we still on  
5 issue three yet?

6 MR. MEYERS: Yes. Commissioner Bob  
7 Nelson.

8 MR. KELLY: Commissioner Kretschmer?

9 COMMISSIONER KRETSCHMER: Yes.

10 MR. KELLY: This is Kevin Kelly at the  
11 FERC. On the transmission that's been proposed, do  
12 you have any information on how much of that has  
13 been sited and constructed?

14 COMMISSIONER KRETSCHMER: Proposed in  
15 Illinois?

16 MR. KELLY: Yes.

17 COMMISSIONER KRETSCHMER: Anything a  
18 utility has brought to us for the past 19 years has  
19 been sited and built.

20 COMMISSIONER HARVILL: Kevin, this is  
21 Terry Harvill. In the past since 1998 there have  
22 been eight new transmission projects the Commission  
23 has approved, not including the what I would  
24 consider to be standard interconnection to new  
25 generators. So these are actually -- I don't know

1           whether you can say stand-alone transmission, but  
2           they're independent projects from generation.

3           MR. KELLY: Thank you.

4           COMMISSIONER KRETSCHMER: We've also -- as  
5           Terry I'm sure can vouch for, we have been -- "we,"  
6           Illinois, because we don't do this -- we've allowed  
7           peaker plants to be built, and the one -- the one  
8           reassurance we want is that they're properly priced  
9           also. We do have peaker plants. I take note of  
10          the fact that Kentucky did stop a construction of  
11          peaker plants for a while because the pricing was  
12          not sufficient for the hookups to cover the costs  
13          to local customers.

14          So the cost of building peaker plants is  
15          not only the cost of the generation, it's also the  
16          cost of hooking up those peaker plants to the local  
17          system, and that has to be fairly done so that  
18          the -- the power is paid for by the people who  
19          benefit. Because a peaker plant is built in your  
20          state doesn't mean that power is staying in your  
21          state. We well know that. So that is an important  
22          issue also that very few people discuss.

23          COMMISSIONER WEFALD: This is Commissioner  
24          Wefald. I think pricing issues are very important.  
25          I think we'll get to those in a minute, but I think

1       there's still some more comments that people want  
2       to make on governance issues.

3               MR. MEYERS: We have Commissioner Nelson  
4       and then Commissioner Svanda.

5               COMMISSIONER NELSON: Just briefly, Susan  
6       is right. We are going to be getting our act  
7       together hopefully the end of July and then our  
8       comments can be submitted as part of it, but one of  
9       the options that I think we'd like to consider or  
10      some of us would like to consider is having a  
11      separate advisory process for state commissions to  
12      the RTO, to MISO or whoever, as PJM does.

13              We're very pleased with the MISO's  
14      advisory process now, but we think it's important  
15      that the state commissions have a separate avenue  
16      to address their concerns with the board, and this  
17      is separate from the issue of having a FERC  
18      regional panel because we want to continue those.  
19      We think those have been very productive and want  
20      to continue those and formalize that as well as the  
21      RTO relationship.

22              MR. MEYERS: Just to be clear about your  
23      comments -- this is Ed Meyers -- the standard  
24      market design working paper indicated that states  
25      and other stakeholders should work with RTOs, and

1 your comment goes to that point by saying what,  
2 that you would like to see an exclusive -- go  
3 ahead.

4 COMMISSIONER NELSON: I would, but I think  
5 it's a little presumptuous to say that all the  
6 states have endorsed that. I think we will  
7 hopefully do that at the end of July. If not,  
8 we'll have some other proposals for you.

9 MR. MEYERS: Fine.

10 COMMISSIONER SVANDA: My comments, I  
11 guess, wanted to go to the next level with regard  
12 to governance issues, and I fully support the  
13 effort that's under way with regard to the RTO  
14 governance piece, but I guess the drum that I've  
15 been beating has to do with governance as it gets  
16 to its conclusion with the FERC, and we continue to  
17 propose that there be a special relationship carved  
18 out within the FERC proceedings that allows a final  
19 voice to come from state commissioners, recognizing  
20 that so much of the responsibility, so much of the  
21 public interest measurement occurs at the state  
22 level and at the FERC.

23 We think that ultimately there needs to be  
24 a final consultation on important issues by FERC  
25 with the state commissions, and so that will be



1 something that we continue to advance as one of the  
2 last pieces of governance, and we think it's  
3 important that that be done now to institutionalize  
4 that piece of the process.

5 I think most of us are very content and  
6 pleased with how the current commission does reach  
7 out to state commissions. We know that that isn't  
8 always how things happen, and so we would like very  
9 much to institutionalize those pieces that allow  
10 states to be very active partners in the  
11 decisionmaking process.

12 COMMISSIONER BROWNELL: Dave, we would  
13 welcome input, and as indicated we definitely have  
14 in the SMP an advisory role to the RTOs. We've  
15 instituted these kinds of panels and other  
16 mechanisms, I would emphasize, not limited to this.

17 We're doing a DSM project with the  
18 northeast commissioners that I think is a model of  
19 cooperative working, and I would add that we're  
20 awfully disappointed that even the state panels are  
21 being challenged by companies because we recognize  
22 the important role that the state commissions play  
23 as a -- you know, close to the consumer, although  
24 contrary to some people's belief we continue to  
25 believe we are here for consumers as well.

1           So we'll work with you to develop  
2 something and hope that the other market  
3 participants understand the importance of the state  
4 role and don't try and undermine that.

5           MR. MEYERS: Thank you. We have  
6 Commissioner Hadley and then Commissioner Burg.

7           COMMISSIONER HADLEY: This is Dave Hadley  
8 from Indiana. I just want to echo the comments  
9 from Commissioner Svanda and Commissioner Brownell  
10 right now.

11           We have entered into an era where the  
12 battle between state versus FERC has a lot of  
13 merits in some areas, but in regional transmission  
14 organizations it becomes clear to me as we go down  
15 this path that as an individual state with a  
16 geographical political border, transactions occur  
17 that dramatically impact utilities in our state as  
18 well as customers in our state that are outside  
19 arguably our immediate control, and it only makes  
20 sense that we structure ourselves collectively in  
21 some regional model that allows us to have the  
22 input necessary to protect our state interest at  
23 the same time recognizing the larger regional role  
24 that's going on around us.

25           So the evolution of this regulatory

1 thought is something we really encourage and want  
2 to stay active and try to dialogue through this.

3 Thank you.

4 MR. MEYERS: Thank you. Chairman Burg.

5 COMMISSIONER BURG: Probably just to add  
6 to that a little, I think it's important that we  
7 have an opportunity to bring before FERC especially  
8 those kinds of things that we may need -- that may  
9 violate our state law, that we need to be  
10 recognized that we have to make a state decision,  
11 you know, that we're required to and can't allow  
12 somebody else to.

13 Back to the governance with the MISO or  
14 whoever, I am somewhat concerned that we take too  
15 strong a voting position on there rather than an  
16 advisory position simply because we have so many  
17 states. We're looking at upwards of 20 states now  
18 and to have only one or two representatives be able  
19 to speak for all those states.

20 I think it's important that we -- I think  
21 we should keep those people there to speak for us,  
22 but in a voting position I have some concern how  
23 you can -- how you could have a vote partly because  
24 you sort of buy in even if it's contrary to your  
25 state once there is an actual vote, and I think I'm

1 more comfortable thus having an advisory position  
2 or information position from the effect on states  
3 than I am with having an absolute voting position  
4 and then sort of being a buy-in for all  
5 commissions.

6 MR. MEYERS: Let's have one more on item  
7 three. Commissioner Gillis.

8 COMMISSIONER GILLIS: Thanks, Ed. Gary  
9 Gillis from Kentucky. Just one other comment about  
10 the -- the direction that we're taking as far as  
11 working with FERC, and Dave's comments are well  
12 taken.

13 We do need to, I think, keep in mind what  
14 NGA is doing. They are looking at a -- they are  
15 looking at alternatives on how to collectively work  
16 on transmission siting and other issues that are  
17 going on in all our states, and we as commissioners  
18 certainly need to stay in tune with those issues  
19 and know what our governors are talking about also  
20 because that is currently on the table for the NGA  
21 conference in Boise, I believe, in a couple weeks.  
22 So I might just throw that in, that we need to stay  
23 in tune with that, also.

24 MR. MEYERS: Appreciate that. Shall we  
25 move on to item four, and who would like to speak

1 to this one?

2 COMMISSIONER SVANDA: I'd be happy to kick  
3 it off. In preparation for this meeting I guess as  
4 the planning committee was working through how we  
5 could be most effective, we thought what we would  
6 do with regard to standard market design and the  
7 options paper that you all put out to us, that we  
8 would put together something of a matrix that is  
9 shorthand for what we're all thinking throughout  
10 this region.

11 And so we've passed out to those of you  
12 around the table -- and I guess, Mike, if you'd  
13 pass out the rest of the copies to the rest of the  
14 people in the room. What -- and I didn't realize  
15 until I was on my plane that we had left off a  
16 letter in one of the words in the title, but I  
17 apologize for that.

18 This is a -- something of a condensed,  
19 combined, consolidated set of positions with regard  
20 to where the loosely defined Midwest states are,  
21 and we -- we reached fairly far with this matrix to  
22 gather opinions, and we did that on the hope that  
23 it would be helpful to the FERC as it was trying to  
24 understand where we were all coming from.

25 It was created really in a flurry of

1 activity by a number of our staffs. Janet Haneman  
2 and Mick Heiser in Michigan coordinated the  
3 activity, but a lot of people contributed a great  
4 deal of effort in order to pull this together, and  
5 we did include at the very bottom of it reactions  
6 not from states but instead from PJM and from MISO  
7 so that they would be consistently reported.

8 Some states did not choose to participate  
9 in putting this matrix together. They also,  
10 however, have important opinions and will be  
11 revealed in other ways to you and some important  
12 opinions to be paid attention to, as well. And,  
13 nonetheless, even though all states did not report  
14 or participate, it is an important assemblage of  
15 information.

16 As you read through it you'll note that  
17 there is not unanimity, that the responses do wear  
18 the individualized fingerprints of all of the  
19 states that did participate, and it's exactly as we  
20 would expect and hope to reflect our cultures and  
21 economies and the personalities of the people  
22 involved.

23 In spite of that, the fact that there  
24 isn't absolute unanimity, there is considerable  
25 uniformity. There is, I think, a real kind of

1 shared vision and sense of direction and response  
2 that we would like you to be aware of.

3       There is a very discernible trend line  
4 that you can follow as you read through the  
5 comments that are there, but I also point out that  
6 there are nuances that flow throughout it that also  
7 need your respect and attention, and for the states  
8 that did provide responses and participate in the  
9 various iterations, we really tried to as best we  
10 could reflect the positions that we thought were  
11 being taken. If we didn't do that exactly  
12 correctly, if we erred someplace, we're sorry. It  
13 wasn't intentional, and please correct it for the  
14 record.

15       But we present this to you as a tool that  
16 hopefully will condense a lot of reading and need  
17 for other discussions as you think about what this  
18 region or how this region responds to your standard  
19 market design options paper.

20       MR. MEYERS: Thank you. Shall we let the  
21 matrix speak for itself, or does anybody want to  
22 address any particular comments?

23       MR. CANNON: Ed?

24       MR. MEYERS: Yes, go ahead, Kevin. Kevin  
25 Cannon.

1 MR. CANNON: Actually it's Shelton Cannon.

2 MR. MEYERS: Oh, I'm sorry.

3 MR. CANNON: I was just curious. I'm  
4 looking over this matrix -- it's very helpful --  
5 and I see a number of states that are in support of  
6 standard market design, but I'm also wondering was  
7 there --

8 MR. MEYERS: We can't hear. Could you --

9 MR. CANNON: -- general consensus in terms  
10 of transmission owners being responsible for --

11 COMMISSIONER WEFALD: We can't hear you.  
12 If you could speak more closely --

13 MR. MEYERS: Excuse me, Shelton. Somehow  
14 we're not getting you. Could you try to speak a  
15 little louder? We'll try to mike you up, as well.

16 MR. CANNON: Yes. I'll move a little  
17 closer here. I just said the matrix was very  
18 helpful, and I think, you know, it certainly will  
19 help our decisionmaking process as we try to move  
20 through some of these issues, but I was wondering  
21 if there was general consensus that transmission  
22 owners should be responsibility for any sort of  
23 congestion that they cause.

24 COMMISSIONER SVANDA: I guess we -- this  
25 is Dave Svanda. I guess we were happy to get the



1        answers written down that we have presented in the  
2        matrix, and we really did not record additional  
3        kinds of responses that might inform this for you.

4                However -- and I guess to drive -- to  
5        drive the people who worked hard on this crazy, I  
6        would volunteer that if you have some additional  
7        questions that would meaningfully inform your  
8        decision, get them out to us and we'll use the same  
9        network that we used to develop this matrix to get  
10       answers for you.

11               COMMISSIONER KRETSCHMER: Ed, I have a  
12       good answer for you.

13               MR. MEYERS: This is Commissioner  
14       Kretschmer speaking.

15               COMMISSIONER KRETSCHMER: Short. Every  
16       state answered in their own best interest, so  
17       there's not unanimity, and don't expect unanimity  
18       because state commissioners normally do represent  
19       the opinion of their states. As I read this, I see  
20       some agreement. I see far more nuances, and so I  
21       think you have a lot of work to do.

22               MR. CANNON: Thank you.

23               MR. MEYERS: Okay. We're going to move on  
24       to number five, unless anybody has anything on  
25       number four. Who would like to speak first to item

1 five? Chairman Burg.

2 COMMISSIONER BURG: I will not -- I will  
3 not give my standard we can't live with license  
4 plate. I will just say what I think applies to  
5 five best is the resolution passed by NARUC. I  
6 think if we develop a position that adheres to the  
7 resolution that we passed -- I believe it was the  
8 last meeting. I'm not sure if it was the last one  
9 as far as pricing, in other words, basically that  
10 the cost -- the beneficiaries pay the costs that go  
11 with it, and that would include all costs so that  
12 we get the right market signals. I think that  
13 that's the best method that we can use as far as  
14 pricing of transmission.

15 COMMISSIONER WEFALD: I agree with  
16 Commissioner Kretschmer, that pricing issues are  
17 very important to the building of transmission in  
18 this country, and so our Commission spent -- has  
19 been spending some time looking at pricing issues  
20 and how they'll affect the building of transmission  
21 in the State of North Dakota, because as many of  
22 you are aware we're interested in developing for  
23 our whole region to have the resources of wind and  
24 coal-generated electricity available to those other  
25 states that do need that.

1           And so it was very interesting for us to  
2       find that there was unanimity among all of our both  
3       investor-owned and cooperatives in the State of  
4       North Dakota that license-plate pricing is not  
5       going to be the correct pricing mechanism to  
6       facilitate those transmission upgrades that would  
7       need to be made in our state.

8           And so we're interested in exploring other  
9       options. We don't know whether, you know -- we  
10      understand there's kind of a polarization between  
11      license-plate and postage-stamp pricing, so maybe  
12      there's some hybrid in there that can work better,  
13      something even -- we know that TransLink has a  
14      proposal out there, but perhaps -- we know there's  
15      other new ideas that are being created all the time  
16      to address these transmission pricing issues, and  
17      we're very interested in exploring those as an  
18      alternative to license-plate pricing, but we are  
19      spending time on these issues, and I know that  
20      other states are, as well, because they are so  
21      important as people start to think about  
22      investments in transmission.

23           COMMISSIONER GARVIN: Well, just -- just  
24      for the record, I don't think there's -- I know  
25      NARUC passed its resolution on this participant

1 funding, but I don't think there's unanimity, at  
2 least in the Midwest, on this issue. We feel -- I  
3 mean, we wrote letters in opposition to the  
4 Landrieu Amendment. We don't agree with that, and  
5 I just -- for the record, I can't speak for  
6 Michigan or other states, but we -- we don't agree  
7 with that position that NARUC took.

8 MR. MEYERS: Okay. And that was  
9 Commissioner Garvin of Wisconsin. Ruth Kretschmer.

10 COMMISSIONER KRETSCHMER: You've just  
11 heard from two exporting states and two importing  
12 states. Obviously, the importing states have one  
13 position on pricing, the exporting states have  
14 another position. I wish you luck in splitting the  
15 baby.

16 I think that the NARUC -- I wasn't there,  
17 wasn't able to be there for the debate on that  
18 resolution, but I do support it. I think it's a  
19 fair resolution. I do think that -- in Illinois we  
20 have an old saying that caused causes should pay  
21 the cost, and that means that if you benefit from  
22 something, you should pay for it. If you are not  
23 benefiting from it, you should not pay for it. So  
24 I think that's -- I think that is a fair analysis,  
25 one that we could live with.

1           I'm not sure that either license plates or  
2           postage stamps will work. I know that postage  
3           stamps won't, but I think license plates are fairly  
4           close to that. I think there has to be a better  
5           way to set prices, and pricing, I will tell you, is  
6           the key to getting cooperation from the states and  
7           from the companies. So I wish you luck.

8           MR. MEYERS: We're getting near the end of  
9           our time. We want to save time in case  
10          Commissioners Brownell or Breathitt would like to  
11          make a comment. Let's see if we can get Chairman  
12          Hochstetter in.

13          COMMISSIONER HOCHSTETTER: I think my  
14          comment would mirror Ruth's, as well as some others  
15          today. I don't think the label is what needs to  
16          drive the debate, because there is a lot of  
17          confusion in terms of what postage stamp versus  
18          license plate versus participant funding means.

19          I think the ultimate principle that needs  
20          to drive us is what's the right economic policy.  
21          Who needs generation? Who needs the upgrades? You  
22          know, whoever benefits from the cost needs to pay  
23          the cost, and I think that that's an overriding  
24          principle that most folks can agree on. I mean,  
25          it's a basic macroeconomic principle.

1           We also need to consider that there are  
2           other issues that fall out from that transmission  
3           pricing policy. Promoting fuel diversity, making  
4           sure that we have the right allocation of  
5           resources, making sure that you choose the right  
6           generation versus transmission versus demand side  
7           response. There are so many different things tied  
8           up in appropriate transmission pricing policy that  
9           I think, you know, that really does need to be  
10          decided first and foremost before we decide a lot  
11          of these RTO and SMD issues.

12           MR. MEYERS: Commissioner Gillis, did you  
13          have a brief comment before we go to our FERC  
14          commissioners? Commissioner Gillis?

15           COMMISSIONER GILLIS: No.

16           MR. MEYERS: You're fine? Okay. Let's  
17          hear from our FERC commissioners, if they care to  
18          make a concluding statement. Hello?

19           COMMISSIONER BROWNELL: Yes. We were  
20          being gracious to each other. I'd like to say  
21          thank you. I really continue to be impressed by  
22          the depth of the work that you do, and the matrix  
23          is enormously helpful. I'm not that quick, I  
24          haven't absorbed it all, but it will be helpful, as  
25          is everything that you have provided us, and while

1 we don't expect to hear consensus, the level of  
2 substance that you bring to any discussion is what  
3 is really helpful.

4 So thanks. I wish we could be there with  
5 you. I was in North Dakota for a little while  
6 conference in February, so we wanted to give Pat  
7 the opportunity.

8 MR. MEYERS: Commissioner Breathitt.

9 COMMISSIONER BREATHITT: Just on the last  
10 question of transmission infrastructure, pricing  
11 and who pays, in my mind that's still an open  
12 question. At our agency when we issued our  
13 proposed rulemaking on our interconnection  
14 standards, we did ask some direct questions on  
15 transmission pricing, and we didn't make any  
16 concrete proposals, though, but we did bring that  
17 up, and so the -- it's on the table for discussion,  
18 but we have not made any conclusion on pricing, and  
19 I think the timetable for doing that as reflected  
20 in the big ticket list that you all got is later on  
21 in the year.

22 So spend some time this summer, if you  
23 can, thinking that through and give us the benefit  
24 of your thoughts, and I'm sure that that's going to  
25 be plenty important, that it will be considered

1           when we take up the final rule, but it is still an  
2           open question here.

3           Thanks for all your input.

4           MR. MEYERS: Thank you. I mean, we've  
5           covered just an amazing number of issues in a very  
6           short period of time and very complex issues,  
7           indeed. Thank you all very, very much.

8           (Concluded at 4:00 p.m., the same day.)

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CERTIFICATE OF COURT REPORTER

I, Stephanie A. Smith, a Registered  
Professional Reporter,

DO HEREBY CERTIFY that I recorded in  
shorthand the foregoing proceedings had and made of  
record at the time and place hereinbefore  
indicated.

I DO HEREBY FURTHER CERTIFY that the  
foregoing typewritten pages contain an accurate  
transcript of my shorthand notes then and there  
taken.

Dated at Bismarck, North Dakota, this 26th  
day of June, 2002.

---

Stephanie A. Smith

Registered Professional Reporter